



October 28, 2008

**VIA ELECTRONIC FILING**

Ms. Marlene H. Dortch  
Secretary  
Federal Communications Commission  
445 12th Street, S.W.  
Washington, DC 20554

**Re: Ex Parte Communication, Universal Service Contribution Methodology, WC Docket No. 06-122; Federal-State Joint Board on Universal Service, CC Docket No. 96-45**

Dear Ms. Dortch:

Alpheus supports changes to the Commission's Universal Service Fund ("USF" or "Fund") contribution methodology that would base all USF contributions solely on telephone numbers. Changing to a numbers-based contribution would be good for consumers, the stability of the Fund, and competition. Alpheus adds its support to the numerous other parties that have argued a numbers-based methodology would be (1) more predictable and easier for consumers and business customers to understand; (2) more stable than the current revenue-based methodology; (3) simpler for carriers and USAC to administer and for the Commission to enforce; and (4) more competitively neutral than the revenue-based methodology.

Alpheus strenuously objects to a hybrid USF assessment that taxes small business customers based on both their telephone numbers and dedicated connections. AT&T and Verizon estimate that such a hybrid methodology would increase the business share of USF contributions from 52% to 62%.<sup>1</sup> Yet they fail to estimate the huge and discriminatory impact their proposal would have on small businesses. Assessing the same \$35 USF fee on a DS1—used primarily by small businesses—and higher capacity services such as OC3s and OC48s—used primarily by large businesses—would have a dramatic and adverse impact on the amount small business customers contribute to USF. For example, assume that Company A purchases an interstate OC48 for \$20,000 and today pays \$2,280 in USF contributions (\$20,000 \* 11.4%). Company A's contribution would drop to less than 0.2% of the amount it pays for the circuit under AT&T/Verizon's proposed methodology. In contrast, assume that Company B pays \$155 for an interstate T-1 service and today pays \$17.67 in USF contributions (\$155 \* 11.4%). Company B's contribution would nearly double under AT&T/Verizon's proposed methodology to 22% of the rate it pays for the circuit. The T-1 continues to be the workhorse circuit for small business customers, with the capability to cost-effectively deliver both broadband speeds for Internet access and voice lines. In prior connection-based proposals, the differences between T-1 and high capacity circuits were recognized and accounted

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<sup>1</sup> *Universal Service Contribution Methodology*, WC Docket No. 06-122, *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, AT&T Services, Inc. and Verizon Ex Parte, 2 (filed Oct. 20, 2008).

for in graduated tiers.<sup>2</sup> AT&T/Verizon offer no principled explanation for abandoning such distinctions and severely flattening a connections-based fee.

Equally as troubling, carriers that offer wireless broadband connections to small business would not be required to make any connection-based USF contribution.<sup>3</sup> This discrimination between wireline and wireless, as well as the stark shift of USF contribution obligations from carriers serving large business customers to carriers serving small business customers, cannot be squared with the statute's requirement that contributions be equitable and nondiscriminatory.

Notwithstanding the faults of AT&T/Verizon's eleventh-hour hybrid proposal, Alpheus supports in principle a pure numbers-based contribution proposal as the best way to replace the outdated and broken revenue-based assessment system.<sup>4</sup> The complexity of the current revenues-based methodology is evident from the fact that the Form 499-A worksheet instructions total 37 pages. Although the Form states that it should take contributors a mere 13.5 hours to complete, in Alpheus' experience, that is a gross understatement. In a converging communications market where business customers demand integrated services that include voice and data transport, Internet access, encryption, and customized solutions, it has become increasingly difficult to categorize revenues in each line item of the Form 499-A. As a result, carriers struggle with billing systems, accounting systems, product descriptions, and customer invoices to parse revenue into the buckets required by the instructions. This, taken together with the lack of publicly available guidance from audits performed by the Universal Service Administrative Company ("USAC"), results in arbitrary line drawing that varies carrier-by-carrier.

In contrast, working telephone numbers would be much easier to track and report. Carriers already track and report numbers for number utilization purposes. Given the proposed one-year transition period, carriers would have ample time to develop a consistent, auditable methodology tailored to the new USF criteria and implement changes to their billing systems.

Business and residential customers alike would appreciate the simplicity of a USF assessment based on numbers. Rather than a business customer trying to understand what portion of its customized solution will be treated as interstate or international telecommunications subject to contribution, it would be easy to count up the telephone numbers the business uses to make or receive calls.

Since the numbers-methodology was first proposed in late 2002, the Commission has made many interim fixes to the revenues-based methodology. While those fixes have brought VoIP, prepaid calling cards, and conference calling services into the contribution base, and increased the wireless safe harbor, they have done nothing to simplify the arcane and increasingly complex revenue-based system. In 2006, Chairman Martin admitted that "[w]e take an *interim* step today to ensure the stability of the fund by raising the wireless safe harbor and broadening the contribution base to include interconnected VoIP

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<sup>2</sup> See e.g., Commission Seeks Comment on Staff Study Regarding Alternative Contribution Methodologies Public Notice, FCC 03-31 (rel. Feb. 26, 2003), Staff Study, page 10 (describing four graduated tiers for non-switched connections; first tier up to 725 Kbps assigned a multiple of one and fourth tier above 90 Mbps assigned a multiple of 336).

<sup>3</sup> *Id.* at Attachment n.1.

<sup>4</sup> *Universal Service Contribution Methodology*, WC Docket No. 06-122, *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, AT&T Services, Inc. and Verizon Ex Parte, 2 (filed Sept. 11, 2008).



providers.”<sup>5</sup> Commissioner McDowell agreed that “[t]oday’s action is simply an *interim* measure that will help bridge the gap between the deteriorating status quo and a fairer and more sustainable system for the future.”<sup>6</sup> Indeed, the communications market looks less and less like the one that existed in 1997 when the Commission first adopted end user revenues as the basis for USF contributions.

The Commission has already received two rounds of comments on a numbers-based methodology, in 2003 and 2006. On September 11, 2008, AT&T and Verizon submitted a detailed proposal to implement a pure numbers-based methodology. Alpheus urges the Commission to put that proposal out for public comment on an expedited basis and adopt a numbers-based methodology within a reasonably short timeframe.

Sincerely,



Stephen W. Crawford  
General Counsel and Senior Vice President  
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cc: Amy Bender  
Nicholas Alexander  
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<sup>5</sup> *Universal Service Contribution Methodology; IP-Enabled Services*, WC Docket Nos. 06-122, 04-36, Report and Order and Notice of Proposed Rulemaking, 21 FCC Rcd 7518, Statement of Chairman Kevin J. Martin at 1 (June 27, 2006) (“*VoIP USF Order*”) (emphasis added).

<sup>6</sup> *VoIP USF Order*, Statement of Commissioner Robert M. McDowell, 1.